

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

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R 290833Z AUG 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2906

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

AMCONSUL HONG KONG

US EC MISSION BRUSSELS UNN

US MISSION OECD PARIS UNN

C O N F I D E N T I A L TOKYO 12087

PASS TREASUREY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS, AUG 25-29

SUMMARY: YEN CAME UNDER STRONG PRESSURE IN SPOT AND FORWARD
MARKETS DURING EARLY PART OF THIS WEEK, PROMPTING BOJ TO
INTERVENE TO MAINTAIN YEN 298/DOL RATE IN SPOT MARKET. DOL
PREMIUM IN TWO-AND THREE-MONTH FORWARD MARKETS ROSE, REFLECT-
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ING EXPECTATION THAT CURRENT WEAKNESS OF YEN MAY PERSIST FOR
NEXT FEW MONTHS. END SUMMARY.

1. YEN CAME UNER PRESSURE IN TOKYO FOREX MARKET ON

AUG 25 AND 26, WITH VOLUME IN SPOT MARKET ON LATTER DAY REACHING \$237 MIL. BOJ INTERVENED STRONGLY BOTH DAYS SUPPORTING YEN AT 298/DOL RATE. ESTIMATED \$160 MIL SOLD BY BOJ ON TUES, AUG 26, ACCOUNTED FOR TWO-THIRDS OF DOL SUPPLY IN THAT DAY'S SPOT MARKET. BOJ OFFICIAL CONFIRMED PRESS REPORTS THAT INTERVENTION FOR ENTIRE WEEK WAS AROUND \$250 MIL.

2. BOJ FOREX DEPT HAD ANTICIPATED THAT DOL DEMAND EARLY IN WEEK WOULD BE SOMEWHAT HEAVIER THAN USUAL. BANK OFFICIAL, HOWEVER, ADMITTED THAT LARGE AMOUNT OF SUPPORT TO MAINTAIN YEN 298/DOL RATE WAS CONSIDERABLY MORE THAN BANK HAD ESTIMATED WOULD BE NEEDED DURING WEEK.

3. DOL IN FORWARD MARKETS (WHERE BOJ TRADITIONALLY DOES NOT REPEAT NOT INTERVEN) INCREASED WITH TWO-MONTH FORWARD PREMIA RISING BY MORE THAN ONE PERCENT PR ANNUM FROM MON LEVEL TO APPROACH 2.0 PERCENT BY THUS, AUG 28. PREMIA ON DOL IN THREE-MONTH AND SIX-MONTH FORWARD MARKETS ARE NOW ALMOST 2.0 AND 1.5 PERCENT PER ANNUM, RESPECTIVELY.

4. BOJ OFFICIAL CITED TWO PRINCIPAL REASONS FOR CURRENT WEAKNESS OF YEN: (A) WHILE APPROXIMATE BALANCE ON TRADE PAYMENTS AND NET OUTFLOW ON VISIBLES EXISTED FOR SOME TIME, PROBLEM HAS BEEN COMPOUNDED BY VIRTUAL DRYING UP OF LONG-TERM CAPITAL INFLOW DURING AUG. THE TRADE POSITION IS NOT EXPECTED TO IMPROVE FOR THREE OR FOUR MONTHS. IN MEANTIME INTEREST RATES IN EUROPE AND U.S. ARE RISING WHILE JAPANESE INTEREST RATES ARE DECLINING, THUS REDUCING DOL INFLOW FOR BOND PURCHASES. FOREIGN PURCHASES OF JAPANESE STOCKS HAVE FALLEN EVEN MORE SHARPLY: (B) GOJ OFFICIAL ALSO CITED CURRENT "POLITICAL" DEVELOPMENTS ARE CREATING SOME UNCERTAINTY IN FOREX MARKET. SIZE OF PROPOSED GOJ "PHASE FOUR" STIMULUS IS NOT YET CLEAR. MOREOVER, THIS WEEK KEY ECONOMIC OFFICIALS HAVE BEEN ABSENT. BOJ GOV MORINAGA AND FINMIN OHIRA HAVE LEFT FOR WASHINGTON WHILE DEP PM FUKUDA IS ON GOODWILL TRIP TO SOUTH AMERICA, CONFIDENTIAL

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THUS OFFICIALS APPEAR SOMEWHAT NERVOUS WITH THESE LEADERS ABSENT WHILE OTHER TOP POLICYMAKERS CONTINUE TO MULL PROPOSALS FOR THE "PHASE FOUR" RECOVERY PROGRAM.

5. FOLLOWING ARE DATA FOR OVERNIGHT SPOT (CENTRAL) AND FORWARD DOL EXCHANGE RATES AND TRADING VOLUMES FOR AUG 25-29:

	CENTRAL	FORWARD DOLS	SPOT	
	SPOT RATE (PREMIA IN PACT P.A.)			VOL
	(YEN/DOL) 2-MO	3-MO	4-MO (MIL DOL)	
AUG 25	298.00	1.61	1.40	0.57 132
26	298.00	2.82	2.01	1.61 237
27	298.00	2.66	1.85	1.28 75
28	297.85	2.92	1.88	1.46 88

29 297.90 2.82 1.95 81.27 56

WEEKLY FWD VOL WAS \$832 MIL; SWAP VOL WAS \$356 MIL.
HODGSON

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